

Chapter 4 · Admission of a Partner

CBSE Class 12 Accountancy (055) · Part A · Unit 1 = 36 marks · the most-asked topic in the paper · Ultimate Revision Sheet

60-SECOND RECALL

Sec 31	A new partner can be admitted only with the consent of ALL existing partners .
He acquires 2 rights	Right to share future profits · right in the assets of the firm
Sacrificing Ratio	Old Share – New Share
If nothing stated	Old partners sacrifice in their OLD ratio
6 adjustments	New ratio → Goodwill → Reserves → Revaluation → Capitals → Balance Sheet
Old ratio for	Reserves · Revaluation profit/loss · writing off existing goodwill

1. Meaning

CONCEPT Under **Section 31** of the Indian Partnership Act 1932, a new partner can be admitted only with the **consent of all existing partners**. On admission the firm is **reconstituted**: the old agreement ends and a new one begins.

The incoming partner acquires **two rights**: (1) the right to share the future profits of the firm, and (2) the right in the assets of the firm. For these he brings in **capital** and his share of **goodwill** (premium).

2. New Profit Sharing Ratio — the four cases

CASE 1 — only the new partner's share is given Old partners continue in their **old ratio** for the remainder.

$A:B = 3:2$, C admitted for $1/5$. Remaining = $1 - 1/5 = 4/5$.

$A = 4/5 \times 3/5 = 12/25$ $B = 4/5 \times 2/5 = 8/25$ $C = 1/5 = 5/25$

New ratio = 12 : 8 : 5

CASE 2 — new partner acquires a stated share FROM each partner Subtract what each gives up.

$A:B = 3:2$, C gets $1/10$ from A and $1/10$ from B .

$A = 3/5 - 1/10 = 5/10$ $B = 2/5 - 1/10 = 3/10$ $C = 2/10$

New ratio = 5 : 3 : 2

CASE 3 — new partner acquires a FRACTION of each partner's share C acquires $1/4$ of A 's share and $1/5$ of B 's share.

From $A = 3/5 \times 1/4 = 3/20$ From $B = 2/5 \times 1/5 = 2/25$

$A = 3/5 - 3/20$ $B = 2/5 - 2/25$ $C = 3/20 + 2/25 \rightarrow$ take LCM and simplify.

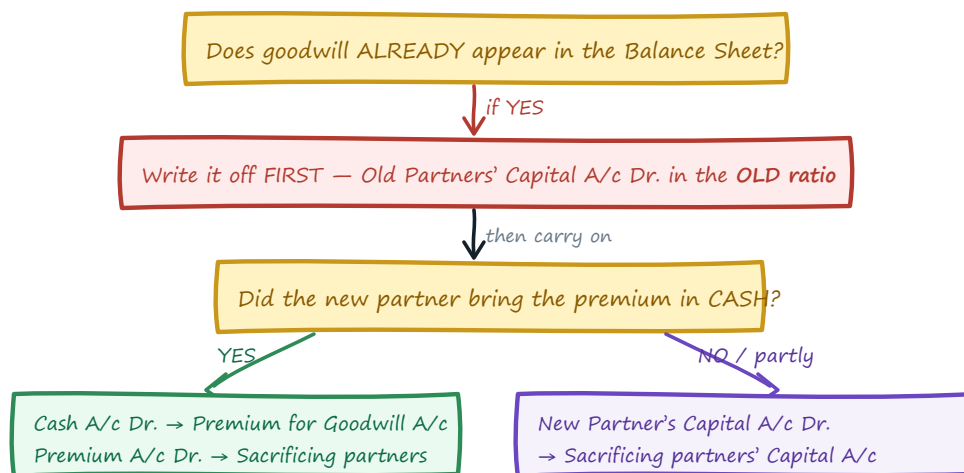
CASE 4 — the sacrificing ratio is given directly Simply subtract each old partner's sacrifice from his old

share.

TRAP When the question is **silent** about how the old partners sacrifice, they sacrifice in their **OLD RATIO** — and then the **sacrificing ratio equals the old ratio**. Do not invent an equal sacrifice.

3. Goodwill (Premium for Goodwill)

Under **AS 26** goodwill is never raised in the books. It is adjusted through capital accounts.



Whichever branch you land on, the credit goes in the **SACRIFICING RATIO**.

If the old partners then withdraw the premium, add one more entry: Sacrificing Partners' Capital A/c Dr. → Cash.

CASE A — premium brought IN CASH and retained in the firm

Particulars	Dr	Cr
Cash / Bank A/c Dr. To Premium for Goodwill A/c To New Partner's Capital A/c (his capital)		...
Premium for Goodwill A/c Dr. To Sacrificing Partners' Capital A/c (sacrificing ratio)		...

CASE B — premium withdrawn by old partners Add, after the entries above:

Sacrificing Partners' Capital A/c Dr. To Cash/Bank A/c

CASE C — premium NOT brought in cash (or only partly) New Partner's Capital A/c Dr. To Sacrificing

Partners' Capital A/c (sacrificing ratio)

For the amount **not** brought in.

CASE D — goodwill already appears in the Balance Sheet Write it off FIRST, among old partners in the

OLD ratio:

Old Partners' Capital A/c Dr. (old ratio) To Goodwill A/c

Then treat the incoming premium normally. **Two separate entries.**

THE MISTAKE THAT COSTS MOST MARKS Premium is credited to the sacrificing partners in the **SACRIFICING RATIO** — not the old ratio, not the new ratio. They are the same number only when the question is silent about the sacrifice.

4. Hidden / Inferred Goodwill

When the question gives the new partner's capital and his share but **not** the goodwill.

THE THREE STEPS

1. Total Capital of Firm = New Partner's Capital $\times$ Reciprocal of his share

2. Net Worth = Combined capitals of ALL partners after all adjustments

3. Hidden Goodwill = Total Capital of Firm – Net Worth

WORKED EXAMPLE A and B capitals after adjustment ₹3,00,000 and ₹2,00,000. C brings ₹2,00,000 for 1/4 share.

1. Total capital = 2,00,000 $\times$ 4/1 = ₹8,00,000

2. Net worth = 3,00,000 + 2,00,000 + 2,00,000 = ₹7,00,000

3. Hidden goodwill = 8,00,000 – 7,00,000 = ₹1,00,000

C's share of goodwill = 1,00,000 $\times$ 1/4 = ₹25,000 $\rightarrow$ debit C's Capital A/c.

5. Revaluation & Reserves — both in OLD ratio

REVALUATION A/c — FORMAT

Particulars	₹	Particulars	₹
To Assets A/c (decrease)	...	By Assets A/c (increase)	...
To Liabilities A/c (increase)	...	By Liabilities A/c (decrease)	...
To Provision for Doubtful Debts	...	By Unrecorded Assets	...
To Unrecorded Liabilities	...		
To Profit $\rightarrow$ Old Partners (OLD ratio)	...	By Loss $\rightarrow$ Old Partners (OLD ratio)	...
	XXX		XXX

Asset up / liability down $\rightarrow$ Credit. Asset down / liability up $\rightarrow$ Debit.

Reserves and accumulated profits/losses are distributed among old partners only, in the OLD ratio. The new partner gets no share of them, because they were earned before he joined.

6. Adjustment of Capitals — two directions

(a) Old partners' capitals adjusted to the NEW ratio

Total Capital = New Partner's Capital $\times$ Reciprocal of his share

Then each old partner's new capital = Total Capital $\times$ his new share. Difference is brought in or withdrawn (cash) or transferred to Current A/c.

(b) New partner's capital derived from old partners' capitals

Total Capital = Combined adjusted capitals of old partners × Reciprocal of their combined share

New partner's capital = Total Capital × his share.

7. Question Triggers what the wording is really asking

If the question says...	Do this
"C is admitted for 1/4 share" (nothing else)	Old partners sacrifice in old ratio ; sacrificing ratio = old ratio
"C acquires 1/10 from A and 1/10 from B"	Subtract directly; sacrificing ratio = 1:1
"C brings ₹X as premium for goodwill"	Cash Dr., Premium A/c Cr., then distribute in sacrificing ratio
"C could not bring his share of goodwill"	C's Capital A/c Dr. → Sacrificing partners Cr.
"old partners withdrew the premium"	Extra entry: their Capital A/c Dr. → Cash Cr.
"goodwill appears in the balance sheet at ₹X"	Write off in OLD ratio first
Capital + share given, goodwill not given	Hidden goodwill — three-step formula
"general reserve / P&L balance appears"	Distribute to old partners only , old ratio
"provision for doubtful debts to be created"	Debit Revaluation
"a liability is no longer payable"	Credit Revaluation
"capitals to be in the new profit sharing ratio"	Adjustment of capitals, method (a)
"workmen compensation claim ₹X"	Excess to old partners; shortfall to Revaluation
"assets and liabilities to appear at old values"	Memorandum Revaluation A/c

MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Revaluation A/c, Partners' Capital A/cs and the Balance Sheet of the new firm.
2. [3-4M] Calculate the new profit sharing ratio and the sacrificing ratio.
3. [3-4M] Pass journal entries for goodwill on admission (premium brought / not brought / withdrawn).
4. [4M] Calculate hidden goodwill and pass the entry.
5. [1M] In which ratio is the premium for goodwill credited? → **Sacrificing ratio**
6. [1M] Why is a new partner asked to bring goodwill? → **To compensate old partners for their sacrifice of future profits**

THE HABIT THAT SCORES — Compute the **sacrificing ratio as WN1** before anything else, even when it looks obvious. The goodwill distribution, the capital adjustment and the closing balance sheet all hang off it — one error there costs the entire 6-mark question.